



*Gave Copy
TO G.N.K
for Region
Meeting
WY*

D. P. FITZGERALD
Area Manager - Operations
North East Sales Area
910-741-2053

May 23, 1996

SENT VIA POUCH MAIL

Roger Farmer
Rich Kane
Jay Loftin
Larry Poole
Peter Schmidt
Mark Young

SUBJECT: **Forsyth Bundeling Approach Presentation**

Per your request, attached is a copy of the "Bundeling Approach" presentation Jim Farmer made at our Sales Area Meeting.

Call if you have any questions.

Don

96085DF/di

51850 0052

Meeting Objectives:

1. *Confirm our ability to be competitive on Forsyth/Total RJR with “the bundling approach”.*
2. *Identify options to be more competitive on “dead net” price when necessary given today’s environment.*
3. *Confirm role/strategies/key issues for MONARCH/BEST VALUE.*
4. *Decide on DORAL SOC application to MON/BV and/or Distr. PL’s.*
5. *Confirm target accounts/guidelines.*

51850 0053

Current Pricing

List	\$8.79
Terms/EFT	.32
O/Invoice	\$2.00
Alliance Accrual	\$.30
S.O.C.	<u>\$.50</u>
	\$5.67
Wholesale Partners	<u>\$0 - .44</u>
	\$5.67 ↔ \$5.23
	\$5.46 Partners Avg. (21¢)

4500 058154

<u>Specific to Forsyth</u>	\$ 5.46	\$5.46
		<u>Est. Avg</u>
Total RJR Merch. Accrual	.25	.25
DORAL SOC	<u>0 ↔ .50</u>	<u>.20</u>
	.25 - .75	.45

Driven by Forsyth

Merch. RDA's	0 ↔ .60	.45
Total RJR Partners (ex. Forsyth)	0 ↔ .16	.10
Merch. Accrual (ex. Forsyth)	.15 ↔ .50	.30
	<u>\$.40 ↔ \$2.01</u>	<u>\$1.30</u>
Net Value Price of PL	\$5.06 ↔ \$3.45	\$4.16

51850 00555

Specific to Bundling:

- ***Some*** ***More Than Competitive***

- ***Most*** ***Very/Competitive***

- ***Few*** ***Don't Get You There***

51850 0056

RJR Bundling Scenario - Chain X (Indirect)

Example #1

Input:

127 Stores
 RJR CPW = 44 per
 PL CPW = 20 per
 RJR Merch. = \$ 210 mo.
 Star PL \$4.76 + \$.43 = \$5.19

Calculation:

PL List	\$8.79
O/I	\$2.00
Alliance Accrual	\$.30
SOC PL	\$.50
	<u>\$5.99</u>

Assumption:

Forsyth \$.80 ctn. short on PL (\$106M)

Bundling:

Merch. Payments	\$.58	Without, PL would drop 3 grids (\$50mo) or \$.58 weighted to PL
Merch. Accrual PL Only	\$.25	On all PL sales
Merch. Accrual FP/BS	\$.21	\$.15/ctn. on FP/BS ctns. or \$.21 weighted to PL (drop from \$50 to \$10)
DORAL SOC	\$.03	If we have PL, account gets \$.50/ctn. on DORAL if SOS 75%+
Dead Net w/Bundling	<u>\$4.92</u>	

51850 0057

RJR Bundling Scenario - Chain Y (Direct - Multiple Branches)

EXAMPLE #2

Input:

750 Stores
 RJR CPW = 192 per
 PL CPW = 64 per
 RJR Merch. = \$ 449 mo.
 PM Exclus. = \$ 607 mo.
 Star PL = \$4.76 ctn.

Calculation:

PL List	\$8.79
Terms/EFT	.32
O/I	2.00
Alliance Accrual	.30
SOC PL	.50
Net PL	<u>\$5.67</u>

Assumption:

RJR \$158 mo. short on merch.
 payments (\$1.4MM)

Forsyth \$.91 ctn. short on PL (\$2.3MM)

Conclusion:

When bundling our PL and other
 programs together our PL is worth
 \$.93 per carton more than Star's.
 $\$.93 \times 2,496,000 = \$ 2.32 MM$

RJR Bundled	+\$2.32MM
PM	<u>-\$ 1.4MM</u>
	+\$.92MM

If total value of PL considered through
 "bundling" chain is still +\$.92MM better
 off with RJR.

- In addition, this account would receive no
 merch. accrual, no gap or ceiling \$ if PM
 exclusive = additional \$2.8MM lost from
 RJR while only picking up \$1.7MM from
 PM.

8500 05815

Bundling:

Wholesale Partners on PL Only	.16	on each ctn. of PL
Wholesale Partners PL to Overall	.08	weighted on PL (\$.08 on half of ctns. for \geq SOS)
Merch. Payments	.50	without PL would drop 2 grids or \$.50 weighted to PL would lose \$2,160,000 merch.
Merch. Accrual PL only	.25	
Merch. Accrual FP/BS	.61	accrual by going with Star only (\$324 to \$84mo.)
DORAL SOC	.24	if we have PL, acct. gets \$.50 ctn. on DORAL if SOS 75%+

Dead Net w/Bundling \$3.83

RJR Bundling Scenario - Candy/Tobacco Distributor Z

Example #3

Input:

Partners Earnings = \$.22

Base SOM End SOM

	<u>Base SOM</u>	<u>End SOM</u>
Total RJR	31.4	32.3
Total RJR SAV	34.8	37.1
Total RJR FP	22.7	23.1

Star at \$4.76

Calculation:

PL List	\$ 8.79
Terms EFT	\$.32
O/I	\$ 2.00
Alliance Accrual	\$.30
PL SOC	\$.40
Net PL	\$5.77

Bundling:

Wholesale Partners \$.22

PL Only

Wholesale Partners .58
PL to Overall

Without PL would not have
achieved RJR SOM or SOS
base shares (\$.08/ctn. on all
volume x PL = 1,586,252/ctns.
= -\$126,900)

Dead Net w/Bundling \$4.97

51850 0059

Net... “Bundling” Works In Majority Of Situations

- **Field must understand and apply the “bundling” principles consistently**
 - Forsyth/Acct. Mktg. Svcs. group developing template to facilitate (Retail/Wholesale Investment Summary)
- **Bundling process varies between indirect/direct chains, but process is generally effective on both.**
- **In few exception cases, RJR/Forsyth may have to step up.**

0900 05815

Even when "bundling", some situations exist where the "dead net" retail price of Forsyth is not competitive in a given market/chain (e.g., 99¢ price point)

. . . How do we "step-up" with existing dollars?

	<u>Wholesale</u>	<u>Retail</u>
Partner Type:	<input type="checkbox"/> 15% PL Volume <input type="checkbox"/> 68% PL Contracts <input type="checkbox"/> Less Control	<input type="checkbox"/> 85% PL Volume <input type="checkbox"/> 32% PL Contracts <input type="checkbox"/> Control Environment
<i>Net. . .</i>	<i>Lower Priority</i>	<i>Higher Priority</i>
Options:	<input type="checkbox"/> Utilize Forsyth Partner \$\$ <input type="checkbox"/> Utilize Forsyth SOC \$\$ <input type="checkbox"/> Utilize Other Partners \$\$ <input type="checkbox"/> Reduce Forsyth Partners Payment and Establish National War Chest (e.g., \$18 - \$06 = \$6.8MM)	<input type="checkbox"/> Utilize DORAL SOC weighted to Forsyth <input type="checkbox"/> Utilize Merch. Accrual \$\$ (on Forsyth PL volume) <input type="checkbox"/> Utilize Forsyth SOC \$\$ <input type="checkbox"/> Utilize Mech. Accrual \$\$ (FP/BS from Forsyth PT) (without compromising promotion plan)
<i>Net. . .</i>	<i>Less Flexibility</i>	<i>Greater Flexibility</i>
Where/How:	National or Selective	National or Selective
	<i>Less Flexible</i>	<i>Less Flexible</i>
		<i>Less Flexible</i>
		<i>More Flexible</i>

T900 05815

Merchandising Accrual \$ Example:

Input:

- 127 Store Chain
- All RJR CPW = 44
- Forsyth CPW = 20
- Merch. Acc. w/PL = \$50 mo.
- Merch. Acc. w/o PL = \$10 mo.

		Annual Accrual \$	
		Disadvantaged (\$.10)	Advantaged (\$.25)
	Available for FP Promotions	\$15,240	\$76,200
	PL Direct Contributions (132,080 ctns.)	0	<u>(\$33,020)</u>
	Available for FP Promotions	\$15,240	\$43,180
	PL Indirect Contribution	0	<u>(\$27,940)</u>
		<u>\$15,240</u>	<u>\$15,240</u>

51850 0062